5/14/84 U2030-1 A

HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

VOLUME VIII, NO. 9 May 11, 1984

Industrial Production for the First Quarter of 1984

PRODUCT	1st Quarter of 1984	% first quarter 1984 over 1st quarter 1983
Electricity (bil.kw.hrs)	407.0	107.0
Petroleum (inc.gas condensate) (mil.tons)	153.0	99.8
Natural gas (bil.cu.mtrs.)	146.0	109.0
Coal(mil.tons)	186.0	99.8
Steel(mil.tons)	39.0	103.0
Fertilizer (mil.tons)	7.7	104.0
Metal-cutting tools(mil.rubl.)	594.0	111.0
Robots(units)	3.1	174.0
Computer Tech. (bil.rubles)	854.0	113.0
Tractors(1000)	12.7	102.0
Paper(1000 tons)	1.5	105.0
Cement (mil. tons)	31.9	102.0
Meat(mil. tons)	2.4	108.0
Margerine (1000 tons)	408.0	102.0
Watches(mils)	17.0	97.0
Radios(mils)	2.3	102.0
Television sets (millions)	2.2	106.0
Automobiles (1000s)	335.0	102.0

INDUSTRIAL PRODUCTION FOR THE 1ST QUARTER OF 1984

Overall, production continues to increase. Admittedly, there was one extra work day in February because of leap year, and apparently in January because of one less day celebrating the New Year. Nonetheless, production continues to grow at a rather impressive rate for most industrial products. According to the overall general measurement used by the Soviets, the volume of industrial production rose by 4.9%. This seems reflected by the rather high increase shown for the specific industrial products. Some of them have fallen behind the rate established for the first two months of the year, but overall they continue to be higher than they were last year at this time.

Production in the oil industry is of particular interest. The Soviets report production of 153 million tons of petroleum during the first three months of the year. That is exactly the same amount reported during the first three months of 1983. However, as a percentage, the Soviets report that production was only 99.8% of what it had been in the previous year. There may be some difficulty due to rounding off the numbers, but otherwise the impression is that the production was exactly the same. The same problem exists with coal production. Coal production in the first quarter of 1984 was 186 million tons. That was exactly the same for the first quarter of 1983, but again the Russians indicate that coal production was only 99.8% of what it had been earlier. This may reflect the extra day in leap year, but otherwise it is confusing.

Assuming that the figures are meaningful, it also appears as if oil production in March of 1984 was exactly equal to what it was in March 1983, that is, 53 million tons. If that is the

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Where's the oil, Soviet officials ask

By Marshall Goldman

COMMENTARY

Pravda has confirmed what monthly productions statistics have indicated since October 1983. Soviet oil output has begun to decline, and Soviet economic officials have begun to ask: "Where's the oil?" The drop so far is a relatively small one. Indeed, production in February 1984 was almost as high in February 1983 after allowance is made for leap year. Nor is this the first time that production has declined. Beginning in November of 1981, Soviet production failed to increase four months in a row before it began to rise.

Certainly, Soviet leaders will welcome a similar recovery. Sustaining the level of oil output is important to the Soviet Union. Most of us are unaware of it, but the Soviet Union is the world's largest producer of petroleum. It should come as no surprise to find that the Soviet Union has become very dependent on that petroleum for use in its domestic economy and as an export earner. The 12¼ million barrels a day that the Soviet Union produces is 20 percent more petroleum that the United States is able to produce and double that being produced by Saudi Arabia. The Soviet Union can export about one-quarter of what it pumps. Of the three million barrels a day in exports, one-half of it is used by other communist countries. The other one-half is sold to the capitalist world, where it generates more than 60 percent of the convertible currency the Soviet Union earns. Obviously a drop in petroleum output jeopardizes that export earning capability.

Several factors are cited

The drop in output is the result of several factors. Pravda refers specially to the higher-than-normal rainfall, which complicated production operations in the already swampy regions of West Siberia where the Soviet Union has its major production fields. In addition, many of the Soviet Union's older fields elsewhere are being depleted. Even more important, the ministry of the petroleum industry has been charged with inefficiency and even incompetence. A deputy minister was even arrested for fraud. Existing operations have been handled poorly, and exploration is lagging. The Soviet Union has virtually no off-shore operations of its own, and its geological and production technology is generally regarded to be a decade behind that used in the noncommunist world.

While of a considerable concern, the drop of petroleum production is not nearly as bad as the CIA in April 1977 had predicted it would be at this point. According to that forecast, Soviet production would drop as early as 1978, and no later than 1982. By 1985, production was to be as low as eight to 10 million barrels a day. More important, by 1985, the Soviet Union and its East European allies would be forced to import as much as 3.5-4.5 million barrels and day. Both predictions still seem to be wide of the mark. Production for 1984 will most likely continue to exceed 12 million barrels daily, and production in 1985 should not be much below that.

To the surprise of many observers, the Soviet Union recently increased its petroleum exports, at least to the convertible currency countries of he world. Hard-currency exports of petroleum did drop off by about 15 percent from 1979 to 1981. However, this was largely because of the fact that after the overthrow of the shah of Iran and the subsequent war between Iran and Iraq, oil prices increased sharply.

The Soviet Union normally only exports in order to earn the hard currency necessary to pay for the imports it needs. Thus, when the price of oil rose, the Soviets found that they could earn more by exporting less. By 1982, however, the market for oil began to weaken, and so the Soviets deemed it necessary to increase the volume of their exports in order to ensure an adequate supply of convertible currency. Thus, Soviet exports to countries such as those in Western Europe rose by an impressive 40 percent. During the first three-quarters of 1983, exports rose by another 8 percent.

Price cut put pressure on market

Although the Soviet Union only supplies about 11 percent of all the oil needs of Western Europe, the impact of this significantly increased flow of Soviet oil had several inevitable consequences By seeking to increase its share of oil sales in a recession when demand for petroleum is declining, the Soviet Union found it necessary to cut its export prices. This, of course, put even more pressure on the world market price. Similarly, it meant that some of the usual suppliers from the Mideast were bound to find themselves the victim of the Soviet price-cutting tactics.

Given the fact that the Soviet Union has been doing all it can to use its abundant supply of natural gas in place of petroleum and to force its East European allies to do the same thing, it is likely that short of a precipitious drop in oil output, the Soviet Union will be able to set aside similarly large amounts of petroleum for exports for some time to come. Furthermore, the Soviets have begun to look more earnestly than ever at the prospects of joint exploratory work with foreign firms, particularly offshore. Still the drop in production is worrisome.

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CURRENCY FIGURES

Rubles purchased per 100	April 1983	March 1984	April 1984
Austrian shilling	4.25	4.28	4.19
U.K. pound	112.2	113.57	111.60
W. German mark	29.80	30.15	29.39
U.S. dollar	72.50	76.85	79.60
French franc	9.95	9.75	9.58
Japanese yen	.305	.346	.351
Italian lira	.0501	.0484	.0475
Swiss franc	35.48	36.34	35.58

The currency exchange figures released by Gosplan for April 1984 reveal that all currencies have decreased in value, except the Japanese yen, the U.S. dollar and the Swiss franc. Over the last month, only the Japanese yen and the U.S. dollar have shown improvement.

THE CONFERENCE ON THE HUNGARIAN ECONOMY proved to be very interesting. Held this Monday at 1737 Cambridge St., the conference featured the President of the Hungarian Economic Association, Dr. Bela Csikos-Nagy. The morning panel focused on the general political and economic trends in Hungary, assessing the prospects for reform. Professor Charles Gati of Union College and Columbia University; Dr. Bela Csikos-Nagy; and Professor Paul Marer of the Indiana University Business School, presented sketches of the structure and history of the Hungarian economy. Mr. Fulvio Dobrich of Manufacturers Hanover Trust then spoke on the domestic and foreign financing of Hungary's economy.

The afternoon session addressed the status of U.S.-Hungarian trade, beginning with trade specialists John Fogarasi of the Department of Commerce, and Donald Hasfurther of the U.S. Chamber of Commerce. Donald Buyske, Senior Vice President of R & D at S.C. Johnson & Sons; Peter Ernster, Executive Director of Merck Sharp & Dohme, International (Ophthalmics); and Llewelyn Werner, President and Chief Executive Officer of the Crown Coach Corporation in Los Angeles, all discussed their experiences as businessmen doing trade with Hungary.

J. Monahan

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THE RUSSIAN RESEARCH CENTER 1984

SOVIETS CONTINUE TO IMPORT PETROLEUM FROM SAUDI ARABIA

The trade figures for 1983 indicate that the Soviets imported 156 million rubles worth of petroleum from Saudi Arabia. As before, the more likely scenario is that they did not actually import that petroleum into the Soviet Union, but re-exported it either to Eastern Europe or to the hard currency world. This is an increase over the first three quarters of the year, when the exports totaled 110 million rubles, and over the first half of the year when exports were only 30 million rubles. This indicates that this is a continuing policy. In addition, of course, it also looks like the Russians imported petroleum from Iraq, which exported 383 million rubles worth of goods to the Soviet Union in 1983, Iran, which exported 377 million rubles, and Libya, the largest exporter, which exported over a billion rubles worth of goods to the Soviet Union, almost all of which was petroleum.

FOREIGN TRADE FIGURES FOR TRADE WITH EASTERN EUROPE

The Soviet balance of trade with Eastern Europe continues to be positive. It should be remembered that this is not something the Soviets want. Normally they want to have exports just equal imports, as it is more or less with Rumania and Hungary. The Russians continue to have a surplus in their trade with Poland, which is their largest trade surplus among all the East European countries. However, the size of the surplus, in particular with Poland, continues to diminish.

see chart page 4

Industrial Production For the 1st quarter

case or even if production dropped a fraction, it would indicate that the Russians seemed to be coping with their production problems. Readers of this Newsletter will remember that production of oil began to drop in October 1983 and continued to drop until February of this past year, at least on a day to day basis. Now it looks like the drop has been halted or at least reduced in size.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

Million Rubles

	Exports from USSR				Imports to USSR			
	1980	1981	1982	1983	1980	1981	1982	1983
Bulgaria	3660	4375	4885	5511	3439	3697	4288	5053
Czechoslovakia	3648	4382	5048	5872	3536	4105	4732	5420
GDR	4873	5526	6420	6798	4327	5155	5776	6596
Hungary	2982	3307	3707	4058	2757	3300	3746	4007
Poland	4406	4931	4813	5274	3596	3221	4097	4787
Romania	1350	1779	1424	1640	1441	1673	1683	1665
	20,919	24,300	26,297	29,153	19,096	21,151	24,322	27,528
Balance of Trade					+1,823	+3,149	+1,975	+1625